

Property Transfer Tax is 25 years old

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When REALTORS® ask potential home buyers what one expense can mean the difference between signing a contract to buy a home and sitting on the fence, they'll likely say the same thing: it's the taxes. The tax that makes homes more unaffordable in an already expensive market is the Property Transfer Tax (PTT).



For 25 years, the PTT has been adding to the cost of homes. Hardest hit are low equity buyers who may not qualify for the PTT First Time Buyer' Program exemption. Many may have spent years saving a downpayment. Faced with a tax that adds \$10,442 to a home with a benchmark price of \$622,087, they stay put.

The Real Estate Board's response

Since before the PTT was first brought in by the BC Government in 1987, the Real Estate Board has actively and persistently campaigned against the tax.

At every opportunity, the Board has hammered home to the provincial government the message that the PTT makes home buying unaffordable. For example:

1. Each year the Board prepares a pre-budget submission to the BC Select Standing Committee on Finance and Government Services, a committee whose primary purpose is to seek input about spending and tax priorities for the upcoming provincial budget. Our submissions focus on the PTT's harmful effects on our neighbourhoods and our economy.
2. Each year the Board's Government Relations Committee (GRC) and Board representatives such as the president, meet with MLAs in Victoria to recommend changes to help mitigate the tax.
3. Year-round, the Board's GRC meets with MLAs at public functions and in their constituency offices in communities throughout the Lower Mainland to again describe the harmful effects of the tax and to recommend changes.

What has worked?

We have seen some progress.

- From 1987-1994, the Board asked the government to introduce a rebate program for first-time buyers. In 1994, the government introduced the First Time Home Buyers' Program. First-time buyers can claim a PTT exemption provided they meet eligibility requirements.
- In 2005, we asked the government to simplify eligibility requirements so that more first-time buyers would qualify for the rebate. The government implemented changes in the Budget 2006.
- In 2006 we asked the government to raise the first-time buyer exemption price threshold to \$375,000 from \$325,000. The government did this in Budget 2007.
- In 2007, we asked the government to raise the first-time buyer exemption price threshold to \$425,000 and to give breaks to home buyers going green. The government raised the price threshold to \$425,000 and offered sales tax exemptions for ENERGYSTAR qualified appliances, windows, doors, skylights, home heating equipment and other energy-efficient home upgrades.

What hasn't worked?

Each time we've asked the government to remove the PTT, the government has said no. This is because the tax generates significant revenue which rather than being earmarked for housing, goes into general revenue. We don't see this simply as revenue. We see it as excessive taxation against a targeted group which results in an unnecessary, unaffordable closing cost to home buyers.

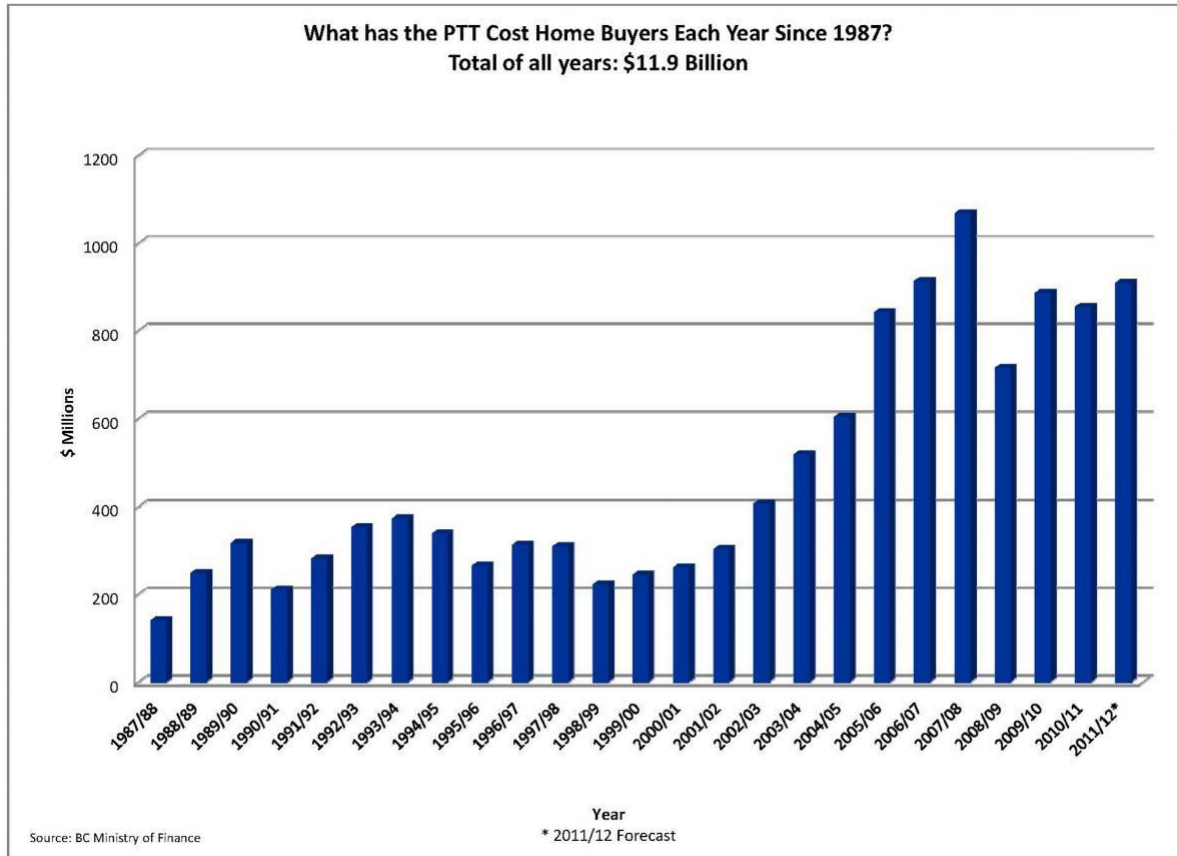
In 2011-12, the tax is forecast to cost BC home buyers \$910 million. Since the tax was implemented in 1987, it has cost home buyers \$11.9 billion.

Did you know?

While overall government tax revenues increased at an annual compound rate of 4.2% since the 1999/2000 fiscal year, PTT revenues ballooned at a rate of 21% per year. During the same period, the contribution of the PTT to total tax revenue has increased to 5.2% from 1.8%.

Source: Cameron Muir, Chief Economist, BC Real Estate Association

What has the PTT cost home buyers each year since 1987?



Fixing the PTT problem

The Real Estate Board has suggested that the government can bring the PTT under control, while still generating revenue to provide important services.

Example 1: In the Board’s October 2011 Pre-Budget Submission, Home Economics: A Taxing Imbalance, we presented evidence that the PTT deprives the economy of a lot of potential economic activity, resulting in harm to our neighbourhoods.

We asked the government to increase the 1% PTT threshold to \$525,000 from \$200,000 in expensive markets.

Since they are very few homes for sale under \$200,000 this would make the threshold more realistic. It would also make the PTT less onerous for low equity buyers at the low end of the market. More fence-sitters would buy homes – which is good for our economy.

- Each time a home changes hands, the transaction generates \$42,000 in economic spin-offs and 2.8 jobs. Home buyers hire appraisers, inspectors, movers and landscapers. They buy furniture, appliances and carpets and get their cable and internet connected. They paint, service the furnace and do other major and minor upgrades.
- Every 100 residential sales generates \$660,000 in provincial taxes, \$300,000 in federal taxes and \$32,000 in municipal taxes.
- In 2010, in the Real Estate Board area, 30,595 sales generated \$1.28 billion in economic activity and 8,567 jobs.

Example 2: The benchmark price for a home (detached, attached and condominium) in Metro Vancouver is now \$622,087. The PTT on this home is \$10,441.74. ($1\% \times 200,000 = \$2,000 + 2\% \times 422,087 = \$8,441.74 = \text{total PTT of } \$10,441.74$).

The transaction results in \$6,600 in other provincial taxes, \$3,000 in federal taxes and \$320 in municipal taxes and 2.8 jobs. These new job holders will also pay taxes – including income tax and sales tax.

By removing the PTT, if 1,000 more home buyers (now sitting on the fence) buy a home, it will generate \$6.6 million in provincial taxes, \$3 million in federal taxes, \$320,000 in municipal taxes and 2,800 jobs. These new job holders will again also pay taxes.

Conclusion: the revenue from the PTT is not as great as the revenue generated from enhanced home sales and spin-offs if the PTT was removed.

Background: What is the Property Transfer Tax?

How does the First Time Home Buyers' Exemption work?

The Property Transfer Tax (PTT) is a tax of 1% on the first \$200,000 and 2% of the remaining value of the purchase price, when the transaction is registered at a Land Title Office.

Qualifying first time buyers may be exempt from the PTT if they meet the First Time Home Buyers' Program requirements. The buyer must:

- be a Canadian citizen or permanent resident;
- have lived in BC for 12 consecutive months before the date of registration, or have filed two income tax returns as a BC resident within the last six years;
- never owned an interest in a principal residence anywhere in the world at any time; and
- not have previously obtained a First Time Home Buyers' Exemption.

In addition:

- The maximum purchase price of the home is \$425,000. There is a proportional exemption for homes priced up to \$450,000.
- The land may be a maximum of 0.5 hectares or 1.24 acres.
- The mortgage term taken must be at least one year. If the term is less than one year, a rebate may be applied for after the qualifying individual has resided at the residence for 12 months.
- The mortgage financing must be 70% or greater of the purchase price (mortgage financing cannot be from family members).
- The property must be owner-occupied (no rentals or investment properties).
- If the home exists, the buyers must move into it within 92 days. If it is vacant land, the buyer must build and move into the new home within one year.
- Buyers must reside in the home for at least one year.

Please note: You cannot re-qualify as a first time home buyer. This rule may be different from federal programs for first time home buyers such as the Canada Revenue Agency's Home Buyers' Plan).

For further information visit: www.sbr.gov.bc.ca/documents_library/bulletins/PTT_004.pdf
(http://www.sbr.gov.bc.ca/documents_library/bulletins/PTT_004.pdf)